

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mecosta Osceola Transit Authority	County Mecosta
Audit Date 9/30/05	Opinion Date 11/21/05	Date Accountant Report Submitted to State: 12/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

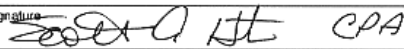
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLJU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 12-15-05	

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2005

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2005

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CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mecosta Osceola Transit Authority
Big Rapids, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Mecosta Osceola Transit Authority, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Mecosta Osceola Transit Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Mecosta Osceola Transit Authority, Big Rapids, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Mecosta Osceola Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2005. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2005, by \$654,810. Of this amount, \$573,546 represents net assets which are invested in capital assets.
- The Authority's total net assets decreased by \$48,264.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Financial Analysis

The following is a summary of the Authority's net assets.

Summary Statement of Net Assets

	2005	2004
Assets:		
Current Assets	\$ 192,945	\$ 199,419
Capital Assets (Net)	573,546	623,162
Total Assets	<u>\$ 766,491</u>	<u>\$ 822,581</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Liabilities:			
Current Liabilities	\$	111,681	\$ 119,507
Net Assets:			
Invested in Capital Assets		573,546	623,162
Unrestricted		81,264	79,912
Total Liabilities and Net Assets	\$	766,491	\$ 822,581

The Authority's net assets decreased by \$48,264 in 2005. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$48,264 decrease in net assets occurred. Also shown is the change for the year ended September 30, 2004.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2005	2004
Operating Revenue	\$ 222,344	\$ 233,686
Operating Expenses	804,884	885,740
Operating Loss	\$ (582,540)	\$ (652,054)
Nonoperating Revenue		
State Sources	\$ 365,106	\$ 361,026
Federal Sources	81,685	79,313
Other Nonoperating Revenue (net)	1,192	10,373
Total Nonoperating Revenue	\$ 447,983	\$ 450,712
Income (Loss) Before Capital Contributions	\$ (134,557)	\$ (201,342)
Capital Contributions	86,293	31,164
Change in Net Assets	\$ (48,264)	\$ (170,178)

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Operating Revenues

<u>REVENUES</u>	2005 AMOUNT	PERCENT OF TOTAL	2004 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2004
Operating Revenue	\$ 222,344	33.17%	\$ 233,686	34.15%	\$ (11,342)
Interest Income	1,192	0.18%	2,828	.41%	(1,636)
Federal Assistance	81,685	12.19%	79,313	11.59%	2,372
State Assistance	365,106	54.46%	361,026	52.75%	4,080
Miscellaneous	0	0%	7,545	1.10%	(7,545)
Total Revenue	\$ 670,327	100.00%	\$ 684,398	100.00%	\$ (14,071)

The federal reimbursement rate increased to 12.40% from 10.95% for eligible expenditures. The State reimbursement rate, however, dropped from 42.236619648% to 38.437574823%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation - Estimated pro-ratio of the cost of capital assets over the useful life of the asset.

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

<u>DEPARTMENT</u>	2005 AMOUNT	PERCENT OF TOTAL	2004 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2004
Operations	\$ 482,798	59.99%	\$ 537,261	52.53%	\$ (54,463)
Maintenance	72,909	9.06%	97,700	11.03%	(24,791)
Administration	113,451	14.09%	123,388	22.05%	(9,937)
Depreciation	135,726	16.86%	127,391	14.39%	8,335
Total Expenses	<u>\$ 804,884</u>	<u>100.00%</u>	<u>\$ 885,740</u>	<u>100.00%</u>	<u>\$ (80,856)</u>

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2005 compared to 2004 by object:

<u>OBJECT</u>	2005 AMOUNT	PERCENT OF TOTAL	2004 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2004
Wages and Benefits	\$ 397,460	49.38%	\$ 569,961	64.34%	\$ (172,501)
Services	40,075	4.98%	23,353	2.63%	16,722
Supplies and Materials	92,900	11.54%	81,205	9.16%	11,695
Utilities	16,710	2.08%	17,572	1.98%	(862)
Casualty and Liability	116,120	14.43%	65,556	7.40%	50,564
Miscellaneous	5,893	0.73%	702	0.11%	5,191
Depreciation	135,726	16.86%	127,391	14.38%	8,335
Total	<u>\$ 804,884</u>	<u>100.00%</u>	<u>\$ 885,740</u>	<u>100.00%</u>	<u>\$ (80,856)</u>

The Authority does not levy a millage. The Authority has decreased expenses such as salaries and benefits in an attempt to operate more efficiently.

Capital Assets

The Authority's investment in capital assets as of September 30, 2005, amounted to \$573,546 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Net capital assets decreased by \$49,616 during the year. Depreciation expense totaled \$135,726. Major capital asset acquisitions during 2005 included the following:

MECOSTA OSCEOLA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

- Bus (\$77,830)
- Computer Equipment (\$3,054)
- Shop Equipment (\$2,194)
- Building Improvements (\$3,032)

Economic Factors and Future Outlook

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.

As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

For its property and casualty insurance coverage, the transit is a participant in a public entity risk pool operated by Michigan Transit Pool. During the fiscal year ended September 30, 2005, the Transit incurred additional retrospective insurance premiums charged by the Michigan Transit Pool of \$84,829. The Transit is not expecting any additional retrospective billings. The Michigan Transit Pool is hopeful some of the claims will settle positively, which will reduce the amount due in future periods.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Mecosta Osceola Transit Authority, 18710 16 Mile Road, Big Rapids, MI 49307.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 53,051	\$ 154,031
Accounts Receivable	32,969	19,759
Due from Other Governments	90,152	0
Prepaid Expense	5,092	9,095
Accrued Interest Receivable	0	1,852
Inventory	11,681	14,682
Total Current Assets	\$ 192,945	\$ 199,419
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 516,974	\$ 513,942
Buses and Other Vehicles	970,556	892,726
Bus and Garage Equipment	61,081	58,887
Office Equipment	148,596	145,542
	\$ 1,697,207	\$ 1,611,097
Less Accumulated Depreciation	1,123,661	987,935
Net Property and Equipment	\$ 573,546	\$ 623,162
TOTAL ASSETS	\$ 766,491	\$ 822,581
<u>LIABILITIES</u>		
Accounts Payable	\$ 88,130	\$ 36,335
Accrued Liabilities		
Payroll Withholdings	1,047	3,406
Salaries and Wages	0	11,221
Compensated Absences	22,504	35,139
Due to Other Governments	0	33,406
Total Liabilities	\$ 111,681	\$ 119,507
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 573,546	\$ 623,162
Unrestricted	81,264	79,912
Total Net Assets	\$ 654,810	\$ 703,074
TOTAL LIABILITIES AND NET ASSETS	\$ 766,491	\$ 822,581

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>	\$ 222,344	\$ 233,686
<u>OPERATING EXPENSES</u>	<u>804,884</u>	<u>885,740</u>
Operating Income (Loss)	\$ (582,540)	\$ (652,054)
<u>NONOPERATING REVENUES</u>	<u>447,983</u>	<u>450,712</u>
Income (Loss) before Capital Contributions	<u>\$ (134,557)</u>	<u>\$ (201,342)</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 69,034	\$ 24,931
State of Michigan	<u>17,259</u>	<u>6,233</u>
Total Capital Contributions	<u>\$ 86,293</u>	<u>\$ 31,164</u>
Change in Net Assets	\$ (48,264)	\$ (170,178)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>703,074</u>	<u>873,252</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u>\$ 654,810</u>	<u>\$ 703,074</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2005</u>	<u>2004</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 202,263	\$ 227,998
Cash Payments to Suppliers for Goods and Services	(302,312)	(359,496)
Cash Payments to Employees for Services	(327,391)	(363,440)
Net Cash Provided (Used) by Operating Activities	\$ (427,440)	\$ (494,938)
Cash Flows from Noncapital Financing Activities:		
Net Project Zero Grant Received	\$ 7,381	\$ 64,845
Net State Operating Grants Received	253,915	301,851
Net Federal Operating Grants Received	61,937	84,443
Net Cash Provided by Noncapital Financing Activities	\$ 323,233	\$ 451,139
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (86,110)	\$ (31,164)
Capital Grants Received	86,293	31,737
Proceeds from the Sale of Assets	0	7,545
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ 183	\$ 8,118
Cash Flows from Investing Activities:		
Interest Received	\$ 3,044	\$ 1,153
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (100,980)	\$ (34,528)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>154,031</u>	<u>188,559</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u>\$ 53,051</u>	<u>\$ 154,031</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2005</u>	<u>2004</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (582,540)</u>	<u>\$ (652,054)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 135,726	\$ 127,391
(Increase) Decrease in Current Assets		
Accounts Receivable	(13,210)	(7)
Prepaid Expense	4,003	(5,482)
Inventory	3,001	(199)
Increase (Decrease) in Current Liabilities		
Accounts Payable	51,795	25,985
Accrued Liabilities	<u>(26,215)</u>	<u>9,428</u>
Total Adjustments	<u>\$ 155,100</u>	<u>\$ 157,116</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (427,440)</u></u>	<u><u>\$ (494,938)</u></u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mecosta Osceola Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Transit Authority has the capability and authority to provide public transportation to the general public in Mecosta and Osceola Counties.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The cash and cash equivalents of Mecosta Osceola Transit Authority are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by the Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

Inventories of motor vehicle fuel and vehicle parts are valued at the lower of cost or market on the first-in, first-out method. Office supplies are not included in inventories.

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NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2005 and 2004, the sick and vacation benefits accrued was \$22,504 and \$35,139, respectively.

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

II. DETAILED NOTES ON FUND

A. Property and Equipment

A summary of changes in the Authority's capital assets follows:

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 8,500	\$ 0	\$ 0	\$ 8,500
Capital assets, being depreciated				
Buildings	\$ 505,442	\$ 3,032	\$ 0	\$ 508,474
Buses and Other Vehicles	892,726	77,830	0	970,556
Bus and Garage Equipment	58,887	2,194	0	61,081
Office Equipment	145,542	3,054	0	148,596
Total capital assets, being depreciated	\$ 1,602,597	\$ 86,110	\$ 0	\$ 1,688,707
Less accumulated depreciation for:				
Buildings	\$ 319,466	\$ 26,217	\$ 0	\$ 345,683
Buses and Other Vehicles	494,594	99,798	0	594,392
Bus and Garage Equipment	46,851	4,192	0	51,043
Office Equipment	127,024	5,519	0	132,543
Total accumulated depreciation	\$ 987,935	\$ 135,726	\$ 0	\$ 1,123,661
Total capital assets, being depreciated, net	\$ 614,662	\$ (49,616)	\$ 0	\$ 565,046
Business-type activities capital assets, net	\$ 623,162	\$ (49,616)	\$ 0	\$ 573,546

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 134,071	\$ 382,903	\$ 516,974
Buses and Other Vehicles	43,203	927,353	970,556
Bus and Garage Equipment	17,846	43,235	61,081
Office Equipment	23,361	125,235	148,596
	<hr/>	<hr/>	<hr/>
Less Accumulated Depreciation	\$ 218,481 (208,868)	\$ 1,478,726 (933,595)	\$ 1,697,207 (1,123,661)
	<hr/>	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	\$ 9,613	\$ 545,131	\$ 573,546
	<hr/>	<hr/>	<hr/>

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Deposits and Investments

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirement.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2005, the Authority's deposits were \$53,051 and the bank balance of \$85,512 which was covered entirely by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end the Authority held no investments.

C. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Accounts	\$ 32,969
Intergovernmental	<u>90,152</u>
 Total Receivables	 <u><u>\$ 123,121</u></u>

The allowance for doubtful accounts is not considered to be material for disclosure.

D. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2002, 2003 and 2004, either have not commenced or have not been completed.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Concentration of Credit Risk

For the fiscal year ended September 30, 2005, the Authority was reimbursed by the State of Michigan for 38.437574823% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage may be recalculated after total eligible expenses for all transits are determined based on audited figures.

G. Risk Management

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Transit carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Transit is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Transit pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Transit would receive a pro rata assessment for their share of the loss. During the years ended September 30, 2005 and 2004, there was an \$84,829 and \$34,322 increase in the premium previously charged by the risk pool. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

H. Lease Agreement

On June 13, 2002, the Authority entered into a four-year lease agreement for a Xerox copier. The agreement calls for monthly payments of \$81. The lease expense for the year ended September 30, 2005 and 2004 was \$969 and \$969, respectively. Future minimum lease payments are as follows:

2005-2006	\$ <u>807</u>
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MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Demand Response (Farebox)		
Mecosta County	\$ 12,787	\$ 15,379
Osceola County	7,050	9,063
Contract Services		
Mecosta County	110,280	116,078
Osceola County	84,368	89,164
Package Fares		
Mecosta County	64	55
Osceola County	4	4
Non-Transportation Revenue		
Mecosta County	708	2,321
Osceola County	212	1,622
Other Revenue		
Mecosta County	3,436	0
Osceola County	3,435	0
Total Operating Revenues	<u>\$ 222,344</u>	<u>\$ 233,686</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2005			2004	
	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM	TOTAL SYSTEM
Labor					
Operator's Salaries and Wages	\$ 159,616	\$ 0	\$ 0	\$ 159,616	\$ 199,997
Other Salaries and Wages	54,963	19,267	67,330	141,560	172,871
Fringe Benefits					
FICA	16,720	1,577	5,574	23,871	27,591
Unemployment	0	0	0	0	961
Group Insurance	56,717	3,086	8,823	68,626	135,517
Workers' Compensation	1,529	858	61	2,448	20,610
Pension Plan	0	0	0	0	7,970
Uniforms and Other	599	297	443	1,339	4,444
Services					
Professional	0	22,167	13,064	35,231	17,777
Maintenance	137	3,236	0	3,373	3,895
Other Services	0	0	1,471	1,471	1,681
Materials and Supplies Consumed					
Fuel and Lubricants	66,895	0	0	66,895	51,262
Tires and Tubes	0	7,372	0	7,372	6,346
Other Materials and Supplies	0	14,970	3,663	18,633	23,597
Utilities and Telephone	9,502	0	7,208	16,710	17,572
Casualty and Liability Costs	116,120	0	0	116,120	65,556
Miscellaneous Expenses					
Miscellaneous	0	0	1,820	1,820	317
Advertising/Promotion Media	0	0	2,850	2,850	211
Dues and Subscriptions	0	0	810	810	0
Travel and Meetings	0	79	334	413	174
Depreciation	126,015	4,192	5,519	135,726	127,391
	\$ 608,813	\$ 77,101	\$ 118,970	\$ 804,884	\$ 885,740

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF MECOSTA COUNTY OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 81,213	\$ 0	\$ 0	\$ 81,213
Other Salaries and Wages	27,965	9,803	34,258	72,026
Fringe Benefits				
FICA	8,507	802	2,836	12,145
Group Insurance	28,858	1,570	4,489	34,917
Workers' Compensation	778	437	31	1,246
Uniforms and Other	305	151	225	681
Services				
Professional	0	11,279	6,647	17,926
Maintenance	70	1,646	0	1,716
Other Services	0	0	748	748
Materials and Supplies Consumed				
Fuel and Lubricants	34,036	0	0	34,036
Tires and Tubes	0	3,751	0	3,751
Other Materials and Supplies	0	7,617	1,864	9,481
Utilities and Telephone	4,835	0	3,667	8,502
Casualty and Liability Costs	59,082	0	0	59,082
Miscellaneous Expenses				
Miscellaneous	0	0	926	926
Advertising/Promotion Media	0	0	1,450	1,450
Dues and Subscriptions	0	0	412	412
Travel and Meetings	0	40	170	210
Depreciation	64,116	2,133	2,808	69,057
	<u>\$ 309,765</u>	<u>\$ 39,229</u>	<u>\$ 60,531</u>	<u>\$ 409,525</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF OSCEOLA COUNTY OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 78,403	\$ 0	\$ 0	\$ 78,403
Other Salaries and Wages	26,998	9,464	33,072	69,534
Fringe Benefits				
FICA	8,213	775	2,738	11,726
Group Insurance	27,859	1,516	4,334	33,709
Workers' Compensation	751	421	30	1,202
Uniforms and Other	294	146	218	658
Services				
Professional	0	10,888	6,417	17,305
Maintenance	67	1,590	0	1,657
Other Services	0	0	723	723
Materials and Supplies Consumed				
Fuel and Lubricants	32,859	0	0	32,859
Tires and Tubes	0	3,621	0	3,621
Other Materials and Supplies	0	7,353	1,799	9,152
Utilities and Telephone	4,667	0	3,541	8,208
Casualty and Liability Costs	57,038	0	0	57,038
Miscellaneous Expenses				
Miscellaneous	0	0	894	894
Advertising/Promotion Media	0	0	1,400	1,400
Dues and Subscriptions	0	0	398	398
Travel and Meetings	0	39	164	203
Depreciation	61,899	2,059	2,711	66,669
	<u>\$ 299,048</u>	<u>\$ 37,872</u>	<u>\$ 58,439</u>	<u>\$ 395,359</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance		
Prior Years Adjustment	\$ 36,861	\$ 7,118
2004 - Mecosta	0	164,594
2004 - Osceola	0	155,538
2005 - Mecosta	158,743	0
2005 - Osceola	155,538	0
Project Zero	13,964	33,776
	<hr/>	<hr/>
Total State Sources	\$ 365,106	\$ 361,026
	<hr/>	<hr/>
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Prior Years Adjustment	\$ (264)	\$ 0
Contract No. 02-0067/Z16 - Mecosta	41,698	0
Contract No. 02-0097/Z8 - Osceola	40,251	0
Contract No. 02-0067/Z11 - Mecosta	0	42,376
Contract No. 02-0097/Z6 - Osceola	0	36,937
	<hr/>	<hr/>
Total Federal Sources	\$ 81,685	\$ 79,313
	<hr/>	<hr/>
<u>OTHER</u>		
Interest Income	\$ 1,192	\$ 2,828
Gain on Sale of Assets	0	7,545
	<hr/>	<hr/>
Total Other Sources	\$ 1,192	\$ 10,373
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES	\$ 447,983	\$ 450,712
	<hr/>	<hr/>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	DUE FROM (TO) STATE		RECEIVED NET OF		DUE FROM (TO) STATE
	10/1/2004	ADJUSTMENTS	EARNED	(REPAYMENTS)	9/30/2005
<u>OPERATING ASSISTANCE</u>					
State Operating Assistance					
2000 Mecosta	\$ 11,393	\$ (3,954)	\$ 0	\$ 7,439	\$ 0
2000 Osceola	(7,680)	15,024	0	0	7,344
2001 Mecosta	2,768	(9,872)	0	(7,104)	0
2001 Osceola	(835)	1,952	0	0	1,117
2003 Mecosta	(2,872)	0	0	(6,146)	3,274
2003 Osceola	(33,711)	33,711	0	0	0
2004 Mecosta	(3,829)	0	0	(3,538)	(291)
2004 Osceola	8,733	0	0	0	8,733
2005 Mecosta	0	0	158,743	166,335	(7,592)
2005 Osceola	0	0	155,538	96,929	58,609
	<u>\$ (26,033)</u>	<u>\$ 36,861</u>	<u>\$ 314,281</u>	<u>\$ 253,915</u>	<u>\$ 71,194</u>
Project Zero 2003-2004	\$ (4,635)	\$ 0	\$ 0	\$ (4,635)	\$ 0
Project Zero 2004-2005	0	0	13,964	12,016	1,948
	<u>\$ (4,635)</u>	<u>\$ 0</u>	<u>\$ 13,964</u>	<u>\$ 7,381</u>	<u>\$ 1,948</u>
Federal Section 5311					
01-0060 Osceola	\$ (95)	\$ 0	\$ 0	\$ 0	\$ (95)
02-0067/Z2 Mecosta	(7)	0	0	(7)	0
02-0097/Z1 Osceola	(977)	(264)	0	(1,241)	0
02-0067/Z3 Mecosta	(2,309)	0	0	0	(2,309)
02-0097/Z2 Osceola	(5,681)	0	0	0	(5,681)
02-0067/Z11 Mecosta	4,075	0	0	3,843	232
02-0097/Z6 Osceola	2,256	0	0	2,249	7
02-0067/Z16 Mecosta	0	0	41,698	27,568	14,130
02-0097/Z8 Osceola	0	0	40,251	29,525	10,726
	<u>\$ (2,738)</u>	<u>\$ (264)</u>	<u>\$ 81,949</u>	<u>\$ 61,937</u>	<u>\$ 17,010</u>
Total Operating Assistance	\$ (33,406)	\$ 36,597	\$ 410,194	\$ 323,233	\$ 90,152
Capital Grant					
02-0067/Z5	\$ 0	\$ 0	\$ 77,830	\$ 77,830	\$ 0
02-0067/Z7	0	0	5,431	5,431	0
02-0067/Z13	0	0	3,032	3,032	0
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 86,293</u>	<u>\$ 86,293</u>	<u>\$ 0</u>
TOTAL FEDERAL AND STATE GRANTS	<u>\$ (33,406)</u>	<u>\$ 36,597</u>	<u>\$ 496,487</u>	<u>\$ 409,526</u>	<u>\$ 90,152</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	PROJECT			
	ZERO	MECOSTA	OSCEOLA	TOTAL
Labor	\$ 5,935	\$ 150,219	\$ 145,022	\$ 301,176
Fringe Benefits	1,989	47,977	46,318	96,284
Services	690	20,039	19,346	40,075
Materials and Supplies	1,550	46,479	44,871	92,900
Utilities	313	8,343	8,054	16,710
Casualty and Liability Costs	595	58,779	56,746	116,120
Miscellaneous Expenses	78	2,958	2,857	5,893
Depreciation	2,814	67,625	65,287	135,726
TOTAL EXPENSES	\$ 13,964	\$ 402,419	\$ 388,501	\$ 804,884

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>FEDERAL - SECTION 5311</u>		<u>STATE OPERATING ASSISTANCE</u>	
	<u>MECOSTA</u>	<u>OSCEOLA</u>		
	<u>02-0067Z16</u>	<u>02-0097Z8</u>	<u>MECOSTA</u>	<u>OSCEOLA</u>
Operating Expenses				
Labor	\$ 150,219	\$ 145,022	\$ 150,219	\$ 145,022
Fringe Benefits	47,977	46,318	47,977	46,318
Services	20,039	19,346	20,039	19,346
Materials and Supplies	46,479	44,871	46,479	44,871
Utilities	8,343	8,054	8,343	8,054
Casualty and Liability Costs	58,779	56,746	58,779	56,746
Miscellaneous Expenses	2,958	2,857	2,958	2,857
Depreciation	67,625	65,287	67,625	65,287
Total Expense	<u>\$ 402,419</u>	<u>\$ 388,501</u>	<u>\$ 402,419</u>	<u>\$ 388,501</u>
Less Ineligible Expenses				
Depreciation	\$ 62,783	\$ 60,611	\$ 62,783	\$ 60,611
Expenses Previously Reimbursed	183	183	183	183
Audit Fees	2,775	2,775	0	0
Total Ineligible Expenses	<u>\$ 65,741</u>	<u>\$ 63,569</u>	<u>\$ 62,966</u>	<u>\$ 60,794</u>
Eligible Expenses	<u>\$ 336,678</u>	<u>\$ 324,932</u>	<u>\$ 339,453</u>	<u>\$ 327,707</u>
Less Project Revenue				
Package Hauling	\$ 64	\$ 4	\$ 64	\$ 4
Propane Sales	338	326	338	326
Total Project Revenue	<u>\$ 402</u>	<u>\$ 330</u>	<u>\$ 402</u>	<u>\$ 330</u>
NET ELIGIBLE EXPENSES	<u><u>\$ 336,276</u></u>	<u><u>\$ 324,602</u></u>	<u><u>\$ 339,051</u></u>	<u><u>\$ 327,377</u></u>
Federal				
Section 5311				
Reimbursement (12.40%)	<u><u>\$ 41,698</u></u>	<u><u>\$ 40,251</u></u>		

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	STATE OPERATING ASSISTANCE	
	MECOSTA	OSCEOLA
State Statutory Operating Assistance 38.437574823% of Net Eligible Expenses	\$ 130,323	\$ 125,836
But at Least a Minimum of Its: 1997 Floor	\$ 158,743	\$ 155,538

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

VEHICLE HOURS AND PASSENGERS
YEAR ENDED SEPTEMBER 30, 2005

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2004

(UNAUDITED)

	2005			2004
	MECOSTA	OSCEOLA	TOTAL	TOTAL
<u>VEHICLE HOURS</u>				
First Quarter	1,227	1,379	2,606	3,499
Second Quarter	1,277	1,645	2,922	3,551
Third Quarter	1,360	1,003	2,363	2,846
Fourth Quarter	1,272	932	2,204	2,798
Total	5,136	4,959	10,095	12,694

	2005				2004
	REGULAR PASSENGER	SENIOR PASSENGER	HANDICAPPED PASSENGER	TOTAL	TOTAL
<u>PASSENGERS</u>					
First Quarter	1,762	102	10,287	12,151	13,690
Second Quarter	1,567	72	10,915	12,554	14,253
Third Quarter	1,250	53	11,194	12,497	13,675
Fourth Quarter	812	35	10,311	11,158	12,837
Total	5,391	262	42,707	48,360	54,455

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2005

(Unaudited)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2005. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	TOTAL PUBLIC TRANSPORTATION MILEAGE
<u>DEMAND-RESPONSE</u>	
Quarter Ended:	
December 31, 2004	67,270
March 31, 2005	74,307
June 30, 2005	62,761
September 30, 2005	<u>57,817</u>
 TOTAL	 <u><u>262,155</u></u>

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2005

Mecosta Osceola Transit Authority
Big Rapids, Michigan

Dear Board Members:

We have completed our audit of the Mecosta Osceola Transit Authority financial statements, and are communicating to you our comments and recommendations for the year ended September 30, 2005. The following comments and recommendations are to be reviewed and considered when the Authority is implementing organizational and procedural changes.

I. Michigan Transit Pool

For its property and casualty insurance coverage, the Transit is a participant in the public entity risk pool operated by the Michigan Transit Pool. For the year ended September 30, 2005, there was an \$84,829 increase in the premium previously charged by the risk pool for retrospective billings. The Michigan Transit Pool remains hopeful that some of the potential claims will settle positively, which will reduce the amount due in future years.

II. Reportable Condition on Internal Control

In planning and performing our audit of the financial statements of the Mecosta Osceola Transit Authority for the year ended September 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted a certain matter that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the condition described above is a material weakness.

We wish to thank the Board for their continued confidence in our firm, and the administration and staff for their cooperation and assistance in helping us complete this engagement. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.